

August 18, 2005

The Honorable Secretary Nathan Hayward III  
Delaware Department of Transportation  
778 Bay Road  
Dover, DE 19901

Dear Secretary Hayward:

In planning and performing our audit of the financial statements of the State of Delaware, Department of Transportation (DelDOT) for the year ended June 30, 2005, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. This letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated August 18, 2005 on the financial statements of DelDOT.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with management. We will be pleased to discuss them in further detail at your convenience, to perform an additional study of these matters, or to assist you in implementing the recommendations.

**Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and *Government Auditing Standards***

As stated in our engagement letter dated July 20, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of DeIDOT. Such considerations were solely for the purpose of determining our audit procedures and to report on the internal control structure in accordance with *Government Auditing Standards* and not to provide any assurance concerning such internal control structure.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of DeIDOT's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on overall compliance with such provisions.

## **Update of Prior Year's Comments**

### **Inventory Valuation**

#### *Finding*

We noted items in inventory that contained costing errors. An overall accurate inventory balance is composed of two major components. The first component is an accurate accounting of the quantities of items in inventory and the second is accurate costing.

We recommended that management periodically review the perpetual inventory listing, and review the inventory costs reported in the system against invoices to ensure the accuracy of the unit costs.

#### *Current Year Status*

Since our 2004 audit, no changes have been made to the procedures followed in the inventory processing area.

### **Transfer of Fixed Assets**

#### *Finding*

During fiscal year 2004, Delaware Transit Corporation (DTC) removed a significant amount of its computer equipment from its fixed assets and transferred them to DeIDOT's information technology section (OIT). We noted that fixed assets transferred during the year from DTC were not added to DeIDOT's equipment inventory listing and that no calculations for depreciation were being maintained following the October 2003 transfer.

We recommended that DelDOT continue to adhere to the State of Delaware's capitalization policy by adding all transferred assets with a cost greater than \$15,000 to DelDOT's equipment inventory. This will ensure the continued standard of recording fixed assets with the appropriate accounting treatment.

*Current Year Status*

As of June 30, 2005, the assets transferred from DTC to DelDOT had not been added to the DelDOT equipment inventory system. The assets are maintained in Excel.

**Project Coding**

*Finding*

We noted that the coding of capital projects is done without regard to the nature of the project. The implementation of GASB No. 34 and the selection of the modified approach for the capitalization of infrastructure has required DelDOT to distinguish between capital projects that should be capitalized as additions to infrastructure and those that should be classified as repairs and maintenance. According to GASB No. 34, additions to infrastructure include new construction and any improvement that increases the capacity of an existing roadway or bridge.

We recommended that the project numbering be modified to distinguish between these defined infrastructure additions and capital projects that are classified as maintenance. This will provide the accounting personnel the ability to easily distinguish between infrastructure additions and maintenance for financial reporting purposes.

*Current Year Status*

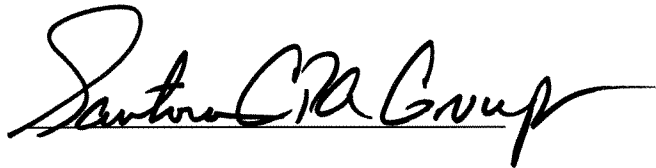
Since our 2004 audit, no changes have been made in the method of coding capital projects within the DelDOT accounting system.

This listing is of our recommendations following the audit of DelDOT. Any additional recommendations that may have been determined from the audits of DTC and the Transportation Trust Fund will be reported in separate management letters to their respective management groups.

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The comments contained herein are offered in the spirit of cooperation and should not be misconstrued as reflecting on anyone associated with DeIDOT. We trust these comments will be accepted in the spirit of cooperation and assistance in which they are offered.

This report is intended solely for the information and use of the management of the State of Delaware, Department of Transportation, and Office of Auditor of Accounts.

A handwritten signature in black ink, appearing to read "Santos C. A. Group". The signature is fluid and cursive, with a long horizontal stroke extending to the right.